

Message Text

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 2504

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

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AMCONSUL STUTTGART

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SUBJECT: GOVERNMENT MOVES TO CURB DEFICITS IN COMING
YEARS

REF: BONN 14111

1. SUBSEQUENT TO EXTENDED CABINET DISCUSSIONS OF THE
FORTHCOMING 1976 FEDERAL DRAFT BUDGET AND THE NEW
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MEDIUM-TERM FISCAL PLAN THROUGH 1979, FINANCE MINISTER

APEL AND ECONOMICS MINISTER FRIDERICHs JOINTLY ANNOUNCED DURING A PRESS CONFERENCE ON AUGUST 29 A SERIES OF CONTEMPLATED MEASURES DESIGNED TO CURB FEDERAL DEFICITS IN COMING YEARS. ENVISAGED EFFECTIVE 1976 IS 1) AN INCREASE FROM THE PRESENT 2 TO 3 PERCENT OF WAGES IN EMPLOYER/EMPLOYEE CONTRIBUTIONS TO THE UNEMPLOYMENT INSURANCE SYSTEM WHICH WOULD CURB OTHERWISE REQUIRED FEDERAL SUBSIDIES BY DM 3.8 BILLION NEXT YEAR, AND 2) A CUT BY DM 4.1 BILLION IN LEGALLY-FIXED EXPENDITURES OR TAX PRIVILEGES BY SPECIAL LEGISLATION TO BE FIRMED UP DURING THE SEPT 10 CABINET MEETING FOR SUBSEQUENT SUBMISSION TO LEGISLATURE.

2. WITH THESE MEASURES, THE GOVERNMENT HOPES TO KEEP 1976 OUTLAYS TO DM 168.1 BILLION (EXCLUDING EXPENDITURES UNDER THE STIMULATION PROGRAMS WHICH, WE UNDERSTAND, COULD AMOUNT TO DM 3 BILLION). THIS WOULD BE 8.4 PERCENT MORE THAN THE ORIGINALLY APPROVED 1975 EXPENDITURE LEVEL AND 4.1 PERCENT MORE THAN THE COMBINED OUTLAYS UNDER THE APPROVED PLUS THE PROPOSED SUPPLEMENTAL BUDGET FOR 1975 (SEE REFTEL). DESPITE THE CONTEMPLATED MEASURES, HOWEVER, THE 1976 DEFICIT IS STILL EXPECTED TO COME TO DM 38.9 BILLION (OR ABOUT DM 42 BILLION INCLUDING THE STIMULATION PROGRAM OUTLAYS), VERSUS DM 40.9 BILLION IN 1975.

3. EFFECTIVE JANUARY 1, 1977, THE GOVERNMENT PLANS TO RAISE THE VALUE ADDED TAX FROM 11 PERCENT TO 13 PERCENT. MOREOVER, TOBACCO AND ALCOHOL TAXES ARE TO BE INCREASED (REPORTEDLY BY 18 AND 20 PERCENT, RESPEC RESPECTIVELY). ASSUMING PARLIAMENTARY APPROVAL OF THESE TAX INCREASES, CONTINUED AND GROWING SAVINGS UNDER THE NEWLY-CONTEMPLATED LEGISLATION" MENTIONED ABOVE AND FURTHER CURTAILMENT OF THE GROWTH OF EXPENDITURES TO 3 PERCENT, THE GOVERNMENT ANTICIPATES FOR 1977 A REDUCTION OF THE FEDERAL DEFICIT TO DM 22 BILLION.

4. FURTHER DETAILS AND EMBASSY COMMENTS FOLLOW.
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